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RAISING CORPORATE SOCIAL RESPONSIBILITY—THE 'LEGITIMACY' APPROACH

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Discussing the normative arguments for the development of corporate social responsibility (CSR) is difficult but important. It is difficult; as any argument for this development could be detrimental if it seems that it could narrow the scope of innovation in business and becomes a barrier to companies' usual business cases. It is important, as the civil society actors need the theoretical basis to further the instances of corporate irresponsibility to societies in an articulated way. Given this background, this article presents a detailed discussion on the 'legitimacy' argument as a normative basis for rising CSR. It is an analysis that runs counter to the functionalist economic arguments mostly focuses on the financial stakeholders and consider only the (allegedly free) 'market' outcomes.

I INTRODUCTION

In society, the norms for business are not fixed; they change over time. Entrenching this change as a central theme, arguments for 'legitimacy' maintain that business organisations need to be responsive to changing social expectations to be perceived as legitimate.[1] This is because business organisations can only continue operating as long as their value systems are considered congruent with their society's value system.[2] Society holds this power, as it is the source of the legal status of business organisations, and it provides authority and the rights to resources for business operations. Organisations cannot acquire these resources automatically; they must establish that benefits from their operations can be expected by society, and that these benefits exceed their cost.[3] Thus, the dynamics of acquiring legitimacy in society do not depend on technological and material imperatives, but rather stem from social customs, norms, beliefs and rituals.[4]

However, corporate society does not adequately reflect these arguments. With their apolitical role based on compliance with national laws, corporate organisations limit their social liabilities to the relatively homogeneous and stable societal expectations. They consider social legitimacy at the cognitive level; they deal with legitimacy issues pragmatically and do not consider these issues at their moral or ethical levels. Under these circumstances, it is difficult, though not impossible, to determine the normative basis of the role of corporate organisations in society; it is difficult to 'explain what companies should or should not do on behalf of the social good.'[5]

Given this background, this article deals with the intricacies of corporate strategies to retain the legitimacy of their operations in society. It discusses this in relation to civil rights and the broader social responsibilities of business companies.[6] First, it highlights legitimacy and the precepts of corporate social responsibility and corporate legitimacy. Second, it discusses the interface

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1 Craig Deegan, Michaela Rankin and Voght P, 'Firms' Disclosure Reactions to Major Social Incidents: Australian Evidence' (2000) 24(1) *Accounting Forum* in Belal, above n 1,14.

2 Rob Gray, Dave Owen and Adams Carol, *Accounting and Accountability: Changes and Challenges in Corporate Social and Environmental Reporting* (1996)46.

3 Mark Mathews, *Socially Responsible Accounting* (1993)26.

4 Mark Suchman, 'Managing Legitimacy: Strategic and Institutional Approaches' (1995) *Academy of Management Review* 571.

5 Swanson, above n 3.

6 Matten, above n 4; J. Van Oosterhout, 'Corporate Citizenship: An Idea Whose Time Has Not Yet Come' (2005) 30(4) *Academy of Management Review* 677.

between the classical view of business responsibilities and the need for corporate legitimacy in society, highlighting how corporate actions have been depoliticised and why they should be situated within the political framework from the perspective of their social responsibilities. Third, it focuses on the gradual development of the nexus between the demand for corporate legitimacy and corporate approaches to fulfilling this demand. Finally, it concludes that to retain their legitimacy in society, companies should accept the principles of CSR at their moral level, and their strategies for social responsibility should be situated within the framework of deliberative democracy in order for them to accept targeted public disclosures[7] or controlling by, or collaborating with, other parties who are considered legitimate.[8] This will be facilitated if they consider their social responsibility performance as central to their development policies.

II. 'LEGITIMACY' APPROACH TO CORPORATE SOCIAL RESPONSIBILITY

A. Corporate Social Responsibility

CSR is a fluid concept.[9] Its interchangeable and overlapping character is dominant in its definition. To some scholars, this concept resembles the source of competitive advantage; to others, it is "an important response to the increasing demands of key stakeholders such as employees, investors, consumers and environmentalists."[10] Again, the precepts of CSR change with each generation, and its criteria may change according to the society in question.[11] For instance, its meaning in the Continental European welfare society is different than its meaning in the USA or in developing or transition society.[12] While in the USA, business enterprises consider the philanthropy as a dominant factor of CSR, in the Northern countries' business enterprises bear their social responsibilities by paying taxes.[13] Given this, this concept can be described using a number of terms: corporate citizenship, the ethical corporation, corporate governance, corporate sustainability, socially responsible investment, corporate accountability and so on, and there is no overall agreement on its definition.[14] The underlying notions of these terms are

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7 It is also referred to as the process of communication.

8 Craig Deegan, Michaela Rankin and John Tobin, 'An Examination of the Corporate Social and
Environmental Disclosures of BHP from 1983-1997: A Test of Legitimacy Theory' (2002) 15(3) *Accounting, Auditing and Accountability Journal* 312.

9 This concept may be described by a number of terms, such as 'corporate citizenship', 'the ethical
corporation', 'corporate governance', 'corporate sustainability', 'social responsible investment', 'corporate accountability' etc. Regardless of terminology, the cope principles are the same. In this article, the term 'CSR' is used not because it carries any special meaning, but simple to be consistent. For details, see Michael Hopkins, 'Corporate Social Responsibility: An Issues Paper' (Policy Integration Department, World Commission on Social Dimension of Globalization, 2004)1; M Van Marrewijk, 'Concepts and Definitions of CSR and Corporate Sustainability: Between Agency and Communion' (2003) 44(2-3) *Journal of Business Ethics* 95, 105.

10 Aida Bagi, Marina krabalo and Lana Narani, 'An Overview of Corporate Social Responsibility in
Croatia' (2004) *Zagreb: AED* ; T S Pinkston and A B Carroll, 'A retrospective examination of CSR orientations: have they changed?' (1996) 15(2) *Journal of Business Ethics* 199.
Nada K Kakabadse, Cecile Rozuel and Linda Lee-Davies, 'Corporate social responsibility and stakeholder approach: a conceptual review' (2005) 1(4) *International Journal of Business Governance and Ethics* 277.

12 EL Daugherty, 'Public relations and social responsibility' (2001) *Handbook of public relations* 389 in
Kakabadse, above n 11,280.

13 Kakabadse, above n 11,280.

14 See Michale Bowfield and Jerdej George Frynas, 'Setting New Agendas: Critical Perspectives on
Corporate Social Responsibility in the Developing World' (2005) 81:3 International Affairs 499,501; see also Dirk Matten and Jeremy Moon, 'Implicit' and 'Explicit' CSR: A

companies. Companies achieve moral legitimacy through 'explicit public discussion', which can be achieved by vigorous participation in social dialogue. Therefore, as Suchman states, companies should be dedicated to convincing others by demonstrating their genuine commitment to social values and demands, and should not depend on strategies for manipulating and persuading social perception of corporate legitimacy. With this approach, an organisation is perceived as legitimate, if it pursues 'socially acceptable goals in a socially acceptable manner.'[33] The following discussion elaborates on these issues.

III. CORPORATE LEGITIMACY IN SOCIETY: THE INTERFACE

From a classical standpoint, the main objective of corporate strategies is to maximise the interest of their stockholders. This view contends that the 'invisible hand doctrine'[34] creates the greatest good for the greatest number and therefore government need not intervene in the market. However, in reality, there are problems within markets due to externalities[35], monopolies,[36] and moral hazards.[37] Theoretically, these problems may not be present, though there are de facto constraints on the ability of the classical business company to act in the interests of the greater community. From a socio-political perspective, the apolitical role of companies, based on the rhetoric that all members of society benefit from capitalist production, increases confusion on the surge of corporate power and its impact on society.

The arguments for a reconceptualisation of corporate objectives centre round the following question: 'For whose benefit and whose expense should the firm be managed?'[38] This question, indeed, puts the ever-increasing interest of companies to maximise their returns without considering the future of their communities under scrutiny. It goes against the classical corporate objective, which is intrinsically related to the depoliticisation of corporate roles in the society.

A. De-politicization of corporate roles in society

Societal change is closely related to the precepts of organisational legitimacy. With this change, the liberal idea of maintaining legitimacy in political institutions and processes also change. This can be traced back to social-political developments in the medieval period. After the development of freedom in medieval Europe, the notion of civil liberty emerged. Subsequently, the concept of citizenship took a more formal form within which individualism and economic liberty became the two dominant themes.

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33 Ashforth and Gibbs, above n 27.

34 The 'invisible hand' is the term economists use to describe the self-regulating nature of the marketplace.
the theory of the invisible hand states that if each consumer is allowed free choice of what to buy and each producer is allowed free choice of what to sell and how to produce it, the market will settle on a product distribution and prices that are beneficial to all members of a community, and hence to the community as a whole. For details, see Ingrid Hahne Rima, *Development of Economic Analysis* (6th Ed, 2001).

35 Externalities means that the impact of one person's actions on the wellbeing of a bystander.

36 Some markets have only one seller, and this seller sets the price. Such a seller is called a monopoly.

37 The phrase moral hazard refers to the risk, or 'hazard', of inappropriate or otherwise 'immoral'
behaviour by the agent who is imperfectly monitored.

38 Edward Freeman, *Stakeholder Theory of the Modern Company: Kantian Capitalism* (1993) in
Constantina Bichta, *Corporate Social Responsibility: A Role in Government Policy and Regulation?* (2003)18; for details, see R Edward Freeman, *Strategic Management: A Stakeholder Approach* (1984).

In the notion of citizenship in modern civilised society, 'individualism' is an essential theme; it is determined by the free will of the people and the rule of law. States derive the legitimacy for their legal rules and public policies from the reason and the will of their citizens[39] and limit their individual decisions and actions by politically legitimate actions to ensure the interest of all citizens. However, unlike the individual citizen, actions for economic gain are kept beyond the reach of immediate legitimate demand. The activities of private actors and companies as the economic extension of the private self are not required to go beyond legal requirements and roles for common decency.[40] Thus, the economic actors in society have been depoliticised.[41] Economic theory on freedom of choice in the market sphere emphasises that 'legitimisation in the market sphere is 'automatic' and that markets thus avoid the typical legitimisation problem of the state.'[42] In the liberal concept of political theory, legitimacy demands that companies remain subjective, rather than objective. Companies do not have an obligation to relate their economic reasoning to social policies and values, and are focused on maximising their profit within the framework of the basic moral and legal rules of society.[43] Their roles for the development of the legitimacy of their actions within society remain primarily at the cognitive level.

This depoliticisation of companies with respect to legitimacy issues has become more salient with the dynamics of globalisation. 'Globalisation does not only macerate the cultural background of the nation state, it furthermore leads to a vivid debate on the interplay of state, economy and civil society which in turn results in reconceptualisations of legitimacy in political theory.'[44] The impact of globalisation has boosted the private sector and in turn, this sector has become tremendously powerful in all respects. Accordingly, this has also raised the general expectation of wider society towards corporate society; these days, society considers companies as 'quasi-public' actors. However, the response from corporate bodies to these expectations has not matched social expectations; companies are frequently blamed for the misuse of their ability to influence social development and for their self-centred strategies.[45] Moreover, although the side

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39 Jurgen Habermas, *Between Facts and Norms: Contributions to a Discourse Theory of Law and*
Democracy (1998).

40 Milton Friedman, *Capitalism and Freedom* (1982).

41 Georg Scherer and Gudio Palazzo, 'Toward a Political Conception of Corporate Responsibility:
Business and Society Seen from a Habermasian Perspective' (2007) 32(4) *Academy of Management Review* 1096 in Palazzo and Scherer, above n 24, 13.

42 Fabienne Peter, 'Choice, Consent, and the Legitimacy of Market Transactions' (2004) 20(01)
Economics and Philosophy 1.

43 Theodore Levitt, 'The Dangers of Social Responsibility' (1958) 36(5) *Harvard Business Review* 41;
Deepak Lal, 'Private Morality and Capitalism: Learning from the Past' in John Dunning (Ed), *Making Globalisation Good: The Moral Challenges of Global Capitalism* (2004) 41; 'The Good Company', *The Economist* 22 January 2005, 3-18; Robert Reich, 'The New Meaning of Corporate Social Responsibility' (1998) 40(2) *California Management Review* 8 in Palazzo and Scherer, above n 24, 86.

44 Palazzo and Scherer, above n 24,88. For details, see Ulrich Beck, *What is Globalisation?* (2000);
Stephen J Kobrin, 'Sovereignty@ Bay: Globalisation, Multinational Company, and the international Political System' (2001) *Oxford Handbook of International Business* 181; Patrizia Nanz and Jens Steffek, 'Global Governance, Participation and the Public Sphere' (2004) 39(2) *Government and Opposition* 314.

45 Currently, large companies are keen to enter national and global economic, fiscal, social, cultural,
environmental and political systems, with the objective of creating a favourable climate for transnational investment and competition in the new global economy. This intervention creates confrontation on issues of employment policy, equality, job security and national security within developing states. There are many examples to illustrate this point. For example, it is argued that the concerns expressed by former chilean president

inwardly consistent and converge on some common qualities and similar elements. In a broader sense, CSR is about the impact of business on a society or, in other words, the role of business enterprises in the development of the society. In its narrower sense, it is a complex and multi-dimensional organizational phenomenon that could be defined as the extent to which and the way in which an organization is consciously responsible for its actions and non-actions and the impact of this on its stakeholders.

B. Corporate legitimacy

The discourse of CSR builds on the concept of organisational legitimacy.[15] The arguments based on legitimacy for the development of CSR can be traced back to the precepts of legitimacy theory. Although this theory is more usually associated with politics, it has an organisational context. According to this theory, organisations exist within society under an implied or expressed social agreement. Scholars such as Thomas Hobbes, John Locke and Jean-Jacques Rousseau have related the intricacies of these agreements to the political theory 'insofar as it explained the supposed relationship between a government and its constituencies'.[16] Even in the changes of the medieval concept of the social contract, the notion of social agreement for organisational legitimacy remains virtually unchanged. In the modern era, the interpretation and development of arguments related to organisational legitimacy in society by scholars including John Rawls, Thomas Donaldson, John Dowling, Jeffrey Pfeffer, Mark Suchman and others are also based on the notion of this agreement.[17] The core of this agreement is that business organisations exist within a superordinate social system.[18] In this system, organisations enjoy legitimacy in so far as their activities are congruent with the broad objectives of this system.[19] From this perspective, J G Maurer describes corporate legitimacy in society in terms of the justification of certain corporate behaviours.[20] Suchman describes it from a different angle; he considers this legitimacy in terms of manipulation and engineering societal support.[21]

Cristi Lindblom defines the term 'legitimacy' as 'a condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part.'[22] In legitimacy theory, the term 'legitimacy' also postulates that business organisations employ different strategies to ensure that their operations are considered legitimate by outside

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Conceptual Framework for Understanding CSR in Europe (2008) 33:2 *The Academy of Management Review* 404,505; Australian Parliamentary Joint Committee and Financial Service, Corporate Responsibility: Managing Risks and Creating Value (Report 2006) 4; For details, see Bowfield and Frynas, above n 14,501.

15 Gray, Kough and Lavers, above n 1; Campbell, below n 15,82.

16 David J Campbell, 'Legitimacy Theory or Managerial Reality Construction? Corporate Social
Disclosure in Marks and Spencer Plc Corporate Reports, 1969–1997' (2000) 24(1) *Accounting Forum* 80,82.

17 For the ideas of these scholars, see John Rawls, *A Theory of Justice* (Revised Edition Ed, 1999); John
Dowling and Jeffrey Pfeffer, 'Organisational Legitimacy: Social Values and Organisational Behaviour' (1975) *Pacific Sociological Review* 122; Thomas Donaldson and Thomas Dunfee, *Ties That Bind: A Social Contracts Approach to Business Ethics* (1999); Amartya Sen, *The Idea of Justice* (2009); Suchman, above n 9.

18 Dowling and Pfeffer, above n 12 in Campbell, above n 15,83.

19 Campbell, above n 15,83.

20 John G Maurer, *Readings in Organisation Theory: Open-System Approaches* (1971) in Campbell, above
n 15,83.

21 Suchman, above n 9, in Campbell, above n 15,83.

22 Cristi Lindblom, 'The Implications of Organisational Legitimacy for Corporate Social Performance
Disclosure' (1994) 2.

parties. It requires them to have adequate strategies in response to, for example, major environmental damage, major accidents leading to social crises or financial scandals created by their activities.[23] In other words, this theory assesses the kind of authority executives possess and the manner in which this authority is used.[24] This study considers the precepts of this theory relating to the legitimacy of business organisations within the boundaries and norms of society.

Corporate legitimacy deals with the appropriate role of companies in society.[25] It also emphasises the means by which society and companies might reach agreement on the issue of CSR. Suchman defines this nexus as a 'generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions.'[26] Given this, he proposes three types of organisational legitimacy:

(1) pragmatic legitimacy;
(2) cognitive legitimacy; and
(3) moral legitimacy.

From the corporate perspective, pragmatic legitimacy is related to a company's strategies to ascribe their legitimacy to their stakeholders and the wider public.[27] Through this approach, companies are challenged to influence an individual's assessment of the usefulness of its operations, structure and leadership behaviour in society.[28] To gain legitimacy in a pragmatic way, companies create strategies to provide direct benefits, for instance, management roles for their constituents. In most cases, this approach allows companies to gain legitimacy by strategic manipulation of the perceptions of their stakeholders.[29] Cognitive legitimacy operates mainly at the subconscious level within the company and its constituents in society. This form of legitimacy emerges at the company level when stakeholders consider that the company's output, procedures, structures and leadership behaviour are necessary and based on their assumptions. Therefore, it is difficult for companies to strategically manipulate the perception of legitimacy of their stakeholders.[30]

Moral legitimacy refers to the conscious moral judgment of society on corporate output, procedures and leadership behaviour.[31] This legitimacy approach provides companies with the scope to give reasons and justify their actions, practices and values. It requires that the company 'reflects a pro-social logic that differs fundamentally from narrow self-interest.'[32] This legitimacy approach is preferred by society, as it resists the self-interested manipulation of other legitimacy strategies and insists on purely pragmatic legitimacy strategies within

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23 Ibid. 14.

24 Richard C Warren, 'The Evolution of Business Legitimacy' (2003) 15(3) *European Business Review* 153,156; Craig Deegan and Jeffrey Unerman, *Financial Accounting Theory* (2006)253.

25 Guido Palazzo and Andreas Georgscherer, 'Corporate Legitimacy as Deliberation: A Communicative Framework' (2006) 66(1) *Journal of Business Ethics* 71,77.

26 Suchman, above n 9, 574 in Palazzo and Scherer, above n 24,77.

27 Suchman, above n 9.

28 Ashforth, B.E. and Gibbs, B.W., 'The Double-edge of Organizational Legitimation' (1990) *Organization Science* 177.

29 Campbell, above n 15, 86.

30 Christine Oliver, 'Strategic Responses to Institutional Processes' (1991) *Academy of Management Review* 145; Suchman, above n 9; Oliver argues that this type of legitimacy could also be manipulated but a minor degree and through an indirect way. For details, see Christine Oliver, 'Strategic Responses to Institutional Processes' (1991) *Academy of Management Review* 145.

31 Campbell, above n 15, 87.

32 Suchman, above n 9 in Campbell, above n 15,87.

effects of corporate operations have been raised and in many instances go beyond the sphere of state control, corporate society's contribution to the mitigation of these side effects is meagre.[46] At this juncture, corporate activities that were originally considered politically neutral are now loaded with more and more public demands; their interface with civil liberty and social legitimacy is more important than that with the state authorities.

B. Politicization of corporate roles in society

The classical view of the corporate role in the social development is constantly being challenged. Recently, this challenge has gained momentum. With the rise of corporate influence in politics, corporate operations being increasingly viewed as responsible for social and environmental damage, hence the necessity of corporate expertise to further development. Neo-liberal economic reasoning is related to these circumstances: on one hand, it assists the increase of international trade, in which corporate organisations hold a major stake; while on the other, it helps the development of arguments against the depoliticised role of companies in society. With the increase in the volume of international trade, the number of corporate initiatives at a national level to deal with issues such as human rights, labour standards, corruption and environmental protection has also increased. Again, with neo-liberal discourse emphasising deregulation and corporate rights, the number of large companies and their influence has increased following the acceptance of the 'open door' economy. However, compared to the increase in corporate ability, their role in social development has not improved.[47] Moreover, the contribution of the larger companies to social development is meagre at best; they were originally designed to fulfil public purposes but have grown beyond their original mandate through the pursuit of economic growth and material progress.

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salvador allende to the un regarding the plans of the international telegraph and telephone company (ITT) and the kenneth copper corporation to overthrow his government was the main cause of his death in a military coup. For details, see Judith Richter, *Holding Corporations Accountable: Corporate Conduct, International Codes and Citizen Action* (2001); for a synopsis of this issue, visit the Corner House, 'Codes in Context TNC Regulation in an Era of Dialogues and Partnerships' (2002) at <http://www.thecornerhouse. org.uk/sites/thecornerhouse.org.uk/files/26codes.pdf> at 7 November 2011. In 1954, the United Fruit Company was a key actor in overthrowing Jacobo Arbenz' government in Guatemala, resulting in decades of violence in this country. For details, see Gustavo Gonzalez, 'Code of Conduct for TNCs Reappears' (2001) <http://www.twnside.org.sg/title/code-cn.htm> at 7 November 2011. People rioted and one person was killed when bechtel, a US-based water consortium, took over the water system of cochabama in Bolivia and almost immediately raised water prices. Feelings ran so high that the corporation's managers left the country and the service was returned to public ownership; Bechtel filed a legal suit against the Bolivian government for US $25 million. For details, see Barry James, 'Challenges of Development for Corporate Responsibility', *International Herald Tribune* 19 August 2002, 5.

46 The cost of damage to the environment by the business sector in 2008 estimated by London-based consultancy firm Trucost was worth US $2.2 trillion - a figure bigger than the national economies of all but seven economies in the world that year. For a sector wise graph of this cost, visit < http://www. guardian.co.uk/environment/2010/feb/18/worlds-top-firms-environmental-damage> at 7 November 2011.

47 Three billion people do not have access to clean water and basic sanitation and these causes about five
thousand children to die from water borne diseases every day. For details, see WHO, *World Water Day Report* (2002), available at < http://www.who.int/water_sanitation_health/takingcharge.html> 7 November 2011. Greenhouse gas emissions are causing severe climate change and ecological imbalance; receding glaciers threaten low lying coastal cities with rising sea levels; for details, see J Floor Anthoni, 'Seafriends: Summary of Threats to the Environment' (2001) <www.seafriends.org.nz/issues/threats.htm> at 7 November 2011.

'In contemporary societies, [corporate] economic power drives the circular loop of power/benefits.'[48] Large companys, with their economic power, can either contribute to or disrupt the circulation of this loop. In nations in which they contribute less to overall socio-economic life, the people of that nation benefit less from economic activities.[49] Hence, as mentioned above, 'an inward spiral of diminishing benefit could result in increased disillusionment and deterioration of legitimate support from society for the companies.'[50] Regarding this point, at the peak of the growth and influence of companies (and simultaneously during the failure of the paradigmatic dominance of instrumental rationality to check the continuing extension of socio-economic imbalances), the question of the rationality of the regulatory framework for companies comes to the forefront of the social agenda. Advocates for the legitimate role of companies in social development demand new regulations focusing on socio-environmental needs with extended corporate responsibilities.[51] They connect this question with the concept of the 'social contract', which holds that there is a 'social contract' between business companies and the society within which they operate.[52] This can explained as follows:

> The social contract would exist between companies (usually limited companies) and individual members of society. Society (as a collection of individuals) provides companies with their legal standing and attributes and the authority to own and use natural resources and to hire employees. Organisations draw on community resources and output both goods and services and waste products to the general environment. The organisation has no inherent rights to these benefits, and in order to allow their existence, society would expect the benefits to exceed the costs to society.[53]

The term 'social contract' reflects the expectations of a society, both explicit and implicit,[54] concerning the manner in which a company should conduct its operations in that society.[55] Different legal requirements of societies form the explicit terms of the social contract, while community expectations constitute the implicit terms.[56] The legitimacy of a company may be threatened by

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48 Andrew Fergus and Julie Rowney, 'Sustainable Development: Lost Meaning and Opportunity?' (2005)
60(1) *Journal of Business Ethics* 24.

49 Ibid. The recent 'occupy wall street' movement in the USA is an appropriate example that illustrates the
lack of public trust in corporate power, strategies and responsibility to the society in which they operate. The core tenet of this movement is that corporate power and position in society and politics is creating serious class conflicts (mostly economic) in society, and corporate society is liable for the misery of individual economic life in the USA. For details, visit <http://www.guardian.co.uk/world/occupy-wall-street> at 10 October 2011.

50 Ibid; for details of the political support of companies in the society and their impact on the social life of
mass people, see Willis Harman, 'The Great Legitimacy Challenge' (1975) 42(5) *Vital Speeches of the Day* 147 in Fergus and Rowney, above n 47,17, 24.

51 Paul Hawken, 'A Declaration of Sustainability' (1993) 54(61) *Unte Reader*; Harman, above n 49.

52 Belal, above n 1,15.

53 Mark R Mathews, *Socially Responsible Accounting* (1993)26 in Deegan, Rankin and Tobin, above n
13,315.

55 Richard C Warren, 'The Evolution of Business Legitimacy' (2003) 15(3) *European Business Review*
153,156.

56 Deegan argues that the terms of a social contract are difficult to determine and different organisations might
have different perceptions of the terms. it is in relation to the implicit terms where managers' perceptions can vary to a great extent. For details, see Craig Deegan, Michaela Rankin and

breaching social customs and rules (e.g., the terms of a social contract) and by failing to conform to social norms and expectations.[57] These issues are sensitive, and inappropriate responses to them would detrimentally affect the status of companies in society. In such situations, society may revoke the company's 'contract' to continue its operations.[58] The withdrawal of social support can have serious implications for companies, as explained by Deegan et al.:

> This might be evidenced through, for example, consumers reducing or eliminating the demand for the products of the business, factor suppliers eliminating the supply of labour and financial capital to the business, or constituents lobbying government for increased taxes, fines or laws to prohibit those actions which do not conform with the expectations of the community.[59]

International society has criticised the classical corporate objective and pressured corporate societies to guarantee more external control of corporate management in order to ensure corporate responsibility within the societies in which they operate. The most demanding voices joining this chorus against the corporate system have come from a perfectly respectable corner of global society: 'from the college campus, the pulpit, the media, the intellectual and literary journals, the arts and sciences and from politicians.'[60] With their criticism, certain rights over corporate management have been bestowed upon the groups with a stake in, or claim on, manufacturers.[61] This has been leveraged by some major shifts in the related doctrinal cohort. For example, the doctrine of 'privity of contract' as articulated in *Winterbottom v. Wright* (1842) 10 M&W 109 changed in the USA with the decision of *Greenman v. Yuba Power* (1963) 59 Cal.2d 57. Through the decision of the Greenman case, manufacturers bear strict liability for damage caused by their products, even though the seller has maintained all precautions and the buyer has no contractual agreement with the seller. Thus, the concept of *Caveat Emptor*[62] has been replaced with that of *Caveat Venditor.*[63] Institutionalised consumerism and regulations following this consumerism have also changed the classical mode of corporate management. International consensus and national frameworks for protecting labour and environmental rights have also emphasised this change. For instance, the recent legal regulations related to clean water and air have constrained companies from 'spoiling the commons'. In *Marsh v. Alabama* (1946) 326 US 501, the US Supreme Court negated the 'property rights' of the company to uphold the right of local citizens.[64]

Peter Voght, 'Firms' Disclosure Reactions to Major Social Incidents: Australian Evidence' (2000) 24(1) *Accounting Forum* 101.

57 Belal, above n 1,15.

58 Craig Deegan, 'The Legitimising Effect of Social and Environmental Disclosures–A Theoretical Foundation' (2002) 15(3) *Accounting, Auditing & Accountability Journal* 282, 292-3.

59 Deegan, Rankin and Voght, above n 55.

60 Comment of Lewis F.Powell, Jr is mentioned in < http://www.answers.com/topic/lewis-franklin-powell-jr> at 22 November 2010.

61 For details on this point, see the discussion on the stakeholder approach to the corporate management at the later part of this chapter.

62 This Latin term is for 'let the buyer beware'. It is a property law doctrine that controls the liabilities of the seller of a real property. According to this doctrine, the buyer could not recover from the seller for defects on the property that render the property unfit for general use. For detail, visit < http://en.wikipedia.org/wiki/caveat_emptor > at 1 August 2011.

63 Caveat venditor is the opposite of caveat emptor. This Latin term translates as '*let the seller beware'*. It suggests that sellers can also be deceived in a market transaction. This doctrine forces the seller to take responsibility for faulty products and discourages them from selling sub-standard products. For details, visit <http://en.wikipedia.org/wiki/caveat_venditor# caveat_venditor> at 1 August 2011.

64 The facts of this case are as follows: a lady was distributing religious handbills standing beside the road in a town owned by a company. She was arrested on a charge of 'trespassing'. The United States Supreme Court decided that the right to freedom cannot be

In this context, the business system has focused more on united actions.[65] From 1971 to 1979, the number of companies represented by registered lobbyists grew from 175 to 650 in USA; the National Association of Manufacturers was moved to Washington in 1973; while the chief executive officers of Fortune 500 companies formed the Business Roundtable in 1972. Their joint efforts raised the membership of the Chamber of Commerce from 36,000 in 1967 to 80,000 in 1974.[66] With this new approach, corporate societies have directed their power to the cultural and political fronts. For instance, corporate grants to the Public Broadcasting System increased from US $3.3 million in 1973 to US $22 million in 1979, and between 1974 and 1978 at least 40 'free company' chairs were funded, primarily at liberal undergraduate colleges in the USA.[67] Gradually, these cultural initiatives became guided by political ends. As Gramsci, Lewis F Powel have noted:

> ...one should not postpone more direct political action, while awaiting the gradual change in public opinion to be effected through education and information. Business must learn the lesson, long ago learned by labour and other self-interested groups. This is the lesson that political power is necessary; that such power must be assiduously [sic] cultivated; and that when necessary, it must be used aggressively and with determination—without embarrassment and without the reluctance which has been so characteristic of American business.[68]

Corporate societies' strategies to tackle societal pressure on legitimacy issues gained momentum when businesses successfully organised the Political Action Committee (PAC) in the USA as the steering body for implementing their programs in society. In 1974, there were 89 corporate PACs. This increased to 784 by 1978, and by the end of 1982, there were 1,467.[69] In response to their organised political efforts, labour-related PACs grew only from 201 to 380 between 1972 and 1982.[70] As Edsell lucidly points out:

> The political wing of the nation's corporate sector staged one of the most remarkable campaigns in the pursuit of power in recent history. By the late 1970s and the early 1980s, business, and Washington's corporate lobbying community in particular, had gained a level of influence and leverage approaching that of the boom days of the 1920s.[71]

Corporate society began dealing with 'social legitimacy' issues pragmatically; from the cognitive level, companies gradually shifted legitimacy issues to the pragmatic level. Although the contradicting arguments and practices related to corporate roles and strategies for social responsibility have been prominent in the discussion of CSR, this momentum has made corporate society more relaxed and strategic in response to demands for social responsibility. They have stepped back from their economic value creation-centred arguments based on their depoliticised

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denied simply to uphold property rights. For details, visit <http://en.wikipedia.org/wiki/marsh_v._alabama> at 1 August 2011.

65 Freeman, above n 37.

66 Edsell Thomas Byrne, 'Business in American Politics: Its Growing Power, Its Shifting Strategies' (1990) Spring *Dissent* 248 in James K. Rowe, *Corporate Social Responsibility As Business Strategy* (2004)131, available at <http://escholarship.org/uc/item/5dq43315jsessionid=f6bafa0de62a77972be9ffebe8157cee> at 3 December 2011.

67 Ibid.

68 Lewis F. Powell Jr., 'Attack on the Free Company System' (2004), available at <http://www.mediatransparency.org/stories/powellma nifesto.htm> at February 2004 cited in Rowe, above n 65.

69 Byrne, above n 65,131.

70 Edsell Thomas Byrne, *The New Politics of Inequality* (1984)107.

71 Ibid.

status and became defensive. With the changed social circumstances they have initiated a plan of action of 'counterbalancing the use of intergovernmental codes as political levers while also creating a better understanding of corporate operations that could preclude more restrictive actions in the future.'[72] Their plans of action are designed to make them a self-consciously political force. They have focused more on efforts to legitimise their activities and began engaging in CSR practices in order to obtain social approval in support of their continued existence and 'license to operate'. Previously, companies were accustomed to seeking this legitimacy through philanthropy. However, with the institutionalisation of CSR practices, corporate engagement in society is more attached to specific circumstances and needs when dealing with social legitimacy and responsibility issues.

The conception that '200 years worth of work in economics and finance indicate that social welfare is maximised when all firms in an economy maximise total firm value'[73] is not as prominent as it was in the 1970s and argument has created doubt that this capitalist rhetoric relates to the objectives of organisational legitimacy. The advocates for the extension of corporate roles in social development doubt the benefits of a pragmatic approach by companies to gain social legitimacy. As discussed earlier, this approach for creating legitimacy depends upon the strategic posture of individual companies; a company plans for this as long as it is required by the company. Therefore, in this approach, the objective of legitimacy strategies is limited to the narrow interests of the company and barely provides room for a genuine ethico-political interpretation of corporate behaviour. Moreover, with this approach, companies do not gain the insight needed to influence them to accept any additional social responsibility beyond that required by the law and their economic interests in order to claim legitimacy. As discussed earlier, civil groups, NGOs and the political system in general do not rely upon pragmatic legitimacy that 'refers either to a weak idea of a company's cognitive compliance or to the pragmatic legitimacy provided by capitalist rhetoric.'[74] Moreover, they have accused the corporate sector of not adequately contributing to the redressment of major socio-environmental problems. For instance, they claim that corporate society is directly or indirectly liable for the greenhouse gas emissions that are causing severe climate change and ecological imbalance; receding glaciers threaten low-lying coastal cities with rising sea levels.[75] The 2001 CSR monitor, based on 20,978 interviews with average citizens across the world found that more than 75 per cent of the participants felt that large companies should be 'completely responsible' for protecting the health and safety of workers and protecting the environment; that corporate beneficiaries owe an enormous ecological debt, particularly to the South, which must be redressed; and that governments should reassert their authority and responsibility over corporate

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72 John Kline, International Codes and Multinational Business: Setting Guidelines for International
Business Operations, London: Quorum Books, 161 in Rowe, above n 65,129.

73 Michael Jensen, 'Value Maximisation, Stakeholder Theory and the Corporate Objective Function'
(2002) *Business Ethics Quarterly* 235,239.

74 Palazzo and Scherer, above n 24,86.

75 Corporate organisations, especially the transnational companies are capable of contributing to the redressment of social and environmental problems to the same extent as the nation states. Of the 15 companies and governments with the world's largest budgets, six are governments, nine are companies. Each of the 15 largest transnational companies now has a budget that exceeds the GDP of more than 120 nation states. Of the 100 largest economies, 51 are now transnational companies and 49 are nation states, with 90 per cent of these transnational companies being based in the 49 nation states. For details, visit <http://www.wcc-coe.org/wcc/what/jpc/corp-account.pd> at 10 October 2011.

powers.[76] This has helped civil groups put pressure on companies to shift the depoliticised status of companies towards their politicisation.

Political theory has identified companies as political since they provoke, and have the ability to provoke, 'public concern resulting from power.'[77] Their growing public influence on national sovereignty and democratic governance demands that scholars create suitable processes to provide rights and liabilities within the democratic order. The purpose of the politicisation of companies is to redefine their place in the society and their role in democratic accountability.[78] 'The call for discourse and communicative ethics in the broad field of corporate responsibility studies denotes a politicisation of the company since it opens corporate decision-making to civil society discourses.'[79]

The core of this politicisation would be the development of moral legitimacy in companies. While their cognitive legitimacy is eroding and their pragmatic legitimacy provokes growing resistance, moral legitimacy could help companies to genuinely address their social responsibilities.[80] Moral legitimacy is the key source of social acceptance and provides less scope for companies to engineer and manipulate the strategies required for managing the legitimacy pressures acting on them.[81] Even Friedman concludes that companies should conform 'to the basic rules of the society, both that embodied in law and those embodied in ethical custom.'[82] To this end, state and the private sector could promote suitable strategies; they could increase communicating tools in corporations so that corporation would be in better position to participate in public discourse. The point is, in the lack of proper institution to administer corporate power at the state framework and insufficient institution at the global playing field, corporations could considered as democratic institution and thereafter provisions on discourse management would help all other political institutions to create process for accruing social legitimacy and to solve societal problems. Dryzek defines this connotation in this way: 'discourses are intertwined with institutions; if formal rules constitute institutional hardware, then discourses constitute institutional software.'[83]

IV. Corporate Legitimacy in Society: The Nexus

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76 For details, visit < http://www.globescan.com/news_archives/csr_exec_brief.pdf > at 10 October 2011.

77 Neil Mitchell, 'Corporate Power, Legitimacy, and Social Policy' (1986) *Western Political Quarterly* 197,208; Max Weber, 'Economy and Society' (1968) 213; Jens Steffek, 'The Legitimation of International Governance: A Discourse Approach' (2003) 9(2) *European Journal of International Relations* 249.

78 James P Walsh, Klaus Weber and Joshua D Margolis, 'Social issues and Management: Our Lost Cause Found' (2003) 29(6) *Journal of Management* 859.

79 Palazzo and Scherer, above n 24,91; for details, see Suchman, above n 9; Andrew Wicks and Edward Freeman, 'Organisation Studies and the New Pragmatism: Positivism, Anti-Positivism, and the Search for Ethics' (1998) *Organization Science* 123;Daniel Swanson, 'Toward an Integrative Theory of Business and Society: A Research Strategy for Corporate Social Performance' (1999) 24(3) *Academy of Management Review* 506.

80 Palan shows how these two types of approaches for corporate legitimacy in society have been eroded. The unethical accounting in big companies, inadequate investment at the company level to minimise carbon emissions amid other issues has made previously accepted business behaviour the subject of critical public debate. For details, see Ronen Palan, *The Offshore World: Sovereign Markets, Virtual Places, and Nomad Millionaires* (2006) in Palazzo and Scherer, above n 24, 91.

81 Blake Ashforth and Barrie Gibbs, 'The Double-Edge of Organisational Legitimation' (1990) *Organization Science* 177,181.

82 Milton Friedman, 'The Social Responsibility of Business is to Increase its Profits' (2007) *Corporate Ethics* and *Corporate Governance* 173,218; in the same fashion, Epstien and Votaw concludes that companies have to act according to the moral foundation of the society. For details, see Edwin Epstein and Dow Votaw, *Rationality, Legitimacy, Responsibility: Search for New Directions in Business and Society* (1978)3.

83 J.S. Dryzek, 'Transnational democracy' (1999) 7(1) *Journal of Political Philosophy* 30,35.

Guthrie and Parker examined 100 years (1885-1985) of social disclosures in BHP Ltd. — a large Australian company — and argued that if corporate disclosures respond to major social and environmental events, then there should be a correlation between peaks of disclosure and significant events in BHP's history. [84] Though it failed to relate legitimacy theory directly with its core findings, this is an example of an early influential study that related legitimacy issues with corporate performance. Nonetheless, a number of studies provide growing evidence in support of a legitimacy perspective. For instance, Deegan et al. extended the work of Guthrie and Parker by examining CSR reporting in BHP for the period of 1983 to 1997.[85] In line with media agenda setting theory,[86] their study found that media attention reflects community concern. In accordance with that belief, the study measured community concern (via print media attention) to establish whether there was a relationship between specific CSR practices and specific social concerns (as reflected by media attention). The social concerns considered in this study were directly related to the objectives of legitimacy theory related with corporate performance. The results of this study indicated that the issues that received the most media attention were also associated with the highest amount of social and environmental corporate disclosure. Another study conducted by Deegan et al. also provides support for this relationship. It found that companies responded to major events by releasing more legitimizing disclosures around the time of the incidents. Likewise, most of the other studies that used a legitimacy perspective indeed found varying levels of support for it.[87]

Jesper Grolin offers an interesting account of three challenging models of corporate legitimacy.[88] Friedman's approach to corporate legitimacy, which focuses on the economic functions of companies,[89] could be taken as the classical model of corporate legitimacy. [90] The second model is the stakeholder approach to gaining corporate legitimacy in society. This model details companies' responsibilities to those affected by business decisions and operations in a tangible way. The third model is the political company model. It reflects the ethos of the globalisation of the economy and a parallel weakening of national government authority. Its scope is greater than that of the other two models, and it touches the transnational context of this issue by advocating that:

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84 Guthrie J E and Parker L D, 'Corporate social reporting: a rebuttal of legitimacy theory' (1989) 19(7) *Accounting and Business Research*

85 It was argued that 'such failure could be due to deficiencies in the way community concern was
measured in Guthrie and Parker (1989). They (Guthrie and Parker) measured community concern excluding some important events or activities in BHP's history. 'They also acknowledge the possibility that their testing procedures may have failed to detect disclosure reactions if those disclosure reactions lagged behind the various social and environmental events'. For details, see Deegan, Rankin and Tobin, above n 8.

86 Brown N and Deegan C, 'The public disclosure of environmental performance information- a dual test of media agenda setting theory and legitimacy theory' (1999) 29(1) *Accounting and Business Research* 21

87 See, for example, Brown and Deegan, above n 81; Deegan C and Gordon B, 'A study of environmental disclosure practices of Australian corporations' (1996) 26(3) *Accounting and Business Research* 187; Deegan C and Rankin M, 'Do Australian companies report environmental news objectively?' (1996) 9(2) *Accounting, Auditing and Accountability Journal*; Gray R, Kouhy R and Lavers S, 'Corporate social and environmental reporting: a review of the literature and a longitudinal study of UK disclosure' (1995b) 8(2) *Accounting, Auditing and Accountability Journal* 47; Milne M and Patten D, 'Securing organizational legitimacy: an experimental decision case examining the impact of environmental disclosures' (2002) 15(3) *Accounting, Auditing and Accountability Journal*; O'Donovan G, 'Environmental disclosures in the annual report: Extending the applicability and predictive power of legitimacy theory' (2002) 15(3) *Accounting, Auditing and Accountability Journal* 344; Wilmshurst T and Frost G, 'Corporate environmental reporting : a test of legitimacy theory' (2000) 13(1) *Accounting, Auditing and Accountability Journal* 10, 227.

88 Grolin, below n 90; John Dryzek, 'Transnational Democracy' (1999) 7(1) *Journal of Political Philosophy* 30,35.

90 Friedman, above n 81; James Guthrie and Parker L D, 'Corporate Social Reporting: A Rebuttal of Legitimacy Theory' (1989) 19(7) *Accounting and Business Research.*

> ...a company should adopt a clear set of moral and ethical values, which relate to the general public both globally and locally, and which can guide corporate actions irrespective of whether [the company] is explicitly required by law.[91]

Grolin's arguments on the political company model are closely related to the Brent Spar conflict.[92] On the knowledge gained from this conflict, Grolin argues that companies should reach out to the general public to acquire legitimacy for their operations. During this conflict, although Shell was experiencing a consumer boycott across the northern economies, it took time to dispose of its oil storage platform, as it was unable to solve certain engineering problems. The British government helped Shell to solve these problems, and hence Shell was dependent on the government and its allied political institutions. However, Shell had to face the conflict with the public, and as a result of public pressure, it had to step back. Thus, this conflict relates to the 'clash between the reductionist rationality of the scientific expert and the common-sense rationality of the lay public.'[93] It also marks a change 'in the location of the driving forces of politics from formal political institutions to groups and individuals of civil society.'[94] Based on the inability of political institutions to establish the legitimacy of organisational activity, in the future, companies are likely to be held accountable by the public for their legitimate activities.[95]

Following the concept of corporate legitimacy through CSR practices, international societies, consumers, and transnational companies develop different frameworks to ensure greater legitimacy in the companies within their societies. Most of the principles of these frameworks are meant to provide guidance (i.e., in the development of moral responsibility for ensuring good CG) and assist national governments to assess and develop CG. Moreover, scholars have become interested in applying moral responsibility to organisations as they do to individuals. Goodpaster and Matthews argue in this direction, asserting that companies should base their corporate conscience on the morals individuals hold, and that business strategies should follow the efforts of individuals to hold moral attitudes.[96]

In order to establish moral responsibility in companies, Goodpaster and Mathews have analysed individual moral responsibility and relate this to organisational behaviour. According to them, individual decision-making (or moral responsibility) is based on rationality, and it extends its values to others' rationalities. They further argue that this responsibility involves 'careful mapping of alternatives, clarity about goals and purposes, attention to details of implementation...and concern for the effects of an individual's decisions and policies on others.'[97] Business society is gradually accepting this argument, and accordingly, shows almost the same kind of rationality and values that individuals hold while making decisions. Companies have developed 'features into their management incentive systems, board structures, internal control systems, and research agendas that in a person we would call self-control, integrity, and

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91 Ibid.

92 Brent Spar is an oil storage platform in the North-East Atlantic. Regarding its dumping, shell and greenpeace had conflicts started in 1995. Based on theories of corporate legitimacy and risk society, this conflict raised an argument that created a demand for a new balance between business, government and civil society as well as a radicalisation of the requirements for corporate legitimacy. For more details, see Jesper Grolin, *Corporate Legitimacy in Risk Society - the Case of Brent Spar,* Business Strategy and the Environment (1998), available at <http://www3.interscience.wiley.com /journal/61003263/ abstract?cretry=1&sretry=0> at 14 November 2011.

93 Grolin, above, in Bichta, above n 37,22.

94 Ibid.

95 Bichta, above n 37,22.

96 Kenneth E. Goodpaster and Jr. John B. Mathews, 'Can A Corporation Have A Conscience?' (1982) 60(1) *Harvard Business Review* 132 in Bichta, above n 37,21.

97 Ibid.

conscientiousness.'[98] They also consider the human impact of their operations and strategies; they usually do not make controversial policies.[99] For instance, companies tend to rely on management-based strategies rather than strategies based on the concept of the 'invisible hand' and government intervention to explain their moral behaviour.[100] This is because they aim to create an internal source for their behaviour rather than be guided by any external system. Like individuals, companies have their own sets of values. Thus, the ethos of individual behaviour and responsibility has scope to shape corporate conscience; the moral responsibility that exists among individuals could be the source of the socially responsible corporate behaviour that is a vital component of acquiring legitimacy of business operations in society.[101]

Companies incorporate CSR practices to gain social legitimacy. Their interest in CSR practices has increased, as evidenced by the increasing numbers of companies joining the existing cohort of CSR reporters.[102] The precepts of legitimacy theory help to secure their commercial interest through building a strong relationship with their customers.[103] By adopting and implementing CSR practices, they can improve customer satisfaction, which translates into better business, while increasing employee satisfaction results in the delivery of a better quality service and greater business success. With CSR practices, companies can gain social legitimacy and, at the same time, minimise the threat and cost for litigation and NGO action that could have a detrimental effect on their reputation and overall business performance. Moreover, they can use their legitimacy to create a competitive advantage by raising barriers to entry in the market. For example, Wal-Mart relies heavily on advertising the CSR activities that its stores carry out in the local communities where they operate. The Body Shop's reputation was built on the ethical sourcing of its products.

A shift towards improving corporate moral legitimacy would help companies implement CSR principles as an integral part of their business plans. This approach would allow companies to move from economic, utility-driven, and output-oriented strategies to political, input-oriented and communication-driven strategies for fulfilling their social responsibility. Appropriate political strategies would allow for the development of 'the link between corporate decision-making and process of will-formation in a company's stakeholder network.'[104] Strategies for a communicative approach could include the exchange of value-based information between a company and its social environment.[105] For the development of this approach, particularly in the weak economies, Guido Palazzo and Andreas Scherer propose embedded organisational legitimacy, with the central aim being to link the legitimacy and social responsibility issues of companies to a deliberative democracy framework through communication-based strategies.[106] This strategy

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98 Ibid.

99 Ibid 132,136.

100 Ibid 132.

101 Ibid.

102 For example, 80 per cent of ftse-100 companies now provide information about their environmental performance and social impact. For details, see Deegan and Rankin, above n 87; for more information, visit <http://www.article13. com/a13_contentlist.asp?straction=get publication&pnid=569> at 15 April 2009.

103 D. Neu, H. Warsame and K. Pedwell, 'Managing Public Impressions: Environmental Disclosures in Annual Reports' (1998) 23(3) *Accounting, organizations and Society* 265.

104 Palazzo and Scherer, above n 24,93; for details, see Andrew Wicks and Edward Freeman, 'Organisation Studies and the New Pragmatism: Positivism, Anti-positivism, and the Search for Ethics' (1998) *Organization Science* 123; Iris Young, 'From Guilt to Solidarity' (2003) 50(2) *Dissent* 39.

105 Palazzo and Scherer, above n 24,93; Carlton and Payne defines this strategy as 'an interactive field of discourse'. For details, see Jerry Calton and Steven Payne, 'Coping With Paradox' (2003) 42(1) *Business & Society* 7; Timothy Kuhn and Karen Lee Ashcraft, 'Corporate Scandal and the Theory of the Firm' (2003) 17(1) *Management Communication Quarterly* 20.

106 Palazzo and Scherer, above n 24,93.

acknowledges the role of public and private actors in addressing the consequences of problematic market behaviour. The communicative power of companies is used in this strategy 'in the manner of a siege…without intending to counter the system itself.' A company, therefore, must be open to critical deliberation in principle as well as to assume its actions for gaining social acceptance since 'issues of legitimacy does not arise unless an order is contested.'[107]

V. CONCLUSION

The arguments based on 'legitimacy' for the development of CSR is buttressed by adequate theories and grounded in a philosophical basis. These arguments are based also on moral arguments associated with justice, fairness, and communitarianism. These are endorsed by the doctrinal approaches that reject the exclusivity of cost-benefit analysis and include distributive aspects in efficiency models focused on maximizing profits. Standing on these doctrinal bases, CSR relates with the business considering the existing political and economic landscape and helps companies to adopt ethical guidelines, to incorporate stakeholder concerns, and to internalize the costs externalized onto the environment and society more efficiently.[108] This article shows that though 'legitimacy' is critical to companies seeking to secure a continued supply of key resources,[109] they must retain their legitimacy to retain their license to operate within society. Moreover, in order to conform to the changing perceptions of society, they must adapt and change their strategies and, more importantly, communicate these changes to their stakeholders.

With the changes in the landscape of their social, corporate and political environments, the cognitive and pragmatic approaches that companies have previously employed to fulfil their social responsibilities are no longer sufficient for protecting the ethos of their contract with society. Increasingly, these changes in the socio-political framework are being accompanied by arguments calling for these approaches to be complemented with moral approaches for social legitimacy.[110] This approach needs to interfere into the de-politicization dictum in corporate status in political society.

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107 Bosire Maragia, 'Almost There: Another Way of Conceptualising and Explaining NGOs' Quest for Legitimacy in Global Politics' (2002) 2(3) *Non-State Actors and International Law* 301,312.

108 Amir Gill, 'Corporate governance as social responsibility: A research agenda' (2008) 26 *Berkeley Journal of International Law* 452,461; See generally, D McBarnet, A Voiculescu and T Campbell, *The new corporate accountability: Corporate social responsibility and the law* (2007); David Vogel, *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility* (2005).

109 John Dowling and Jeffery Pfeffer, 'Organisation Legitimacy: Social Values and Organisational Behaviour' (1975) 18(1) *Pacific Sociological Review* 122.

110 Georg Scherer and Gudio Palazzo, 'Toward A Political Conception of Corporate Responsibility: Business and Society Seen from A Habermasian Perspective' (2007) 32(4) *Academy of Management Review* 1096.